

Material Weaknesses

Craig Borgh/ Jesse Ivy
JMC Management Controls
Administrator
AMSJM-RMC-P

Extension 24933/24587

Email borghc/ivyj



JMC - On the Line



What Is a Material Weakness?

- ✓ **A management control deficiency that is serious enough for you to consider material and report to the next level of command.**



Material Weakness Conditions

First Condition:

Absence or noncompliance with a control.

Second Condition:

The next level of management should be made aware either because that next level must take action or because it must be aware of the problem.



Definition of a Management Control

- ✓ **Integral component of organization's management.**
- ✓ **Provides reasonable assurance that of the following:**
 - **Efficiency/Effectiveness of operations.**
 - **Reliability of financial reporting.**
 - **Compliance with applicable laws and regulations.**



What a Material Weakness Is Not

- ✓ **Not a shortage of:**
 - **Human resources**
 - **Financial resources**
 - **Other resources (inadequate computer systems, etc.)**
- ✓ **What will happen if you do not have these resources?**



Identifying Material Weaknesses

- ✓ **Management Oversight/Corporate Knowledge.**
- ✓ **Management Control Evaluations.**
- ✓ **Audit, Inspection, Review.**



Factors To Consider

- ✓ **Actual or potential loss of resources.**
- ✓ **Sensitivity of the resources.**
- ✓ **Magnitude of funds, property or other resources.**
- ✓ **Actual or potential frequency of loss.**
- ✓ **Media interest (adverse publicity).**
- ✓ **Congressional interest (adverse publicity)**



Factors To Consider (Continued)

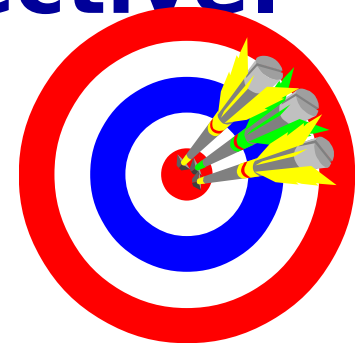
- ✓ **Unreliable information causing unsound decisions.**
- ✓ **Diminish credibility or reputation of management.**
- ✓ **Impair mission fulfillment.**
- ✓ **Information security risk.**
- ✓ **Deprive public of necessary services.**



No Disadvantages



- ✓ Shows proactive desire to inform higher headquarters.
- ✓ Prevents audit findings.
- ✓ Meets or exceeds Management Control Performance Objective.





DOD Systematic Material Weaknesses

- ✓ **Financial Management Systems and Processes.**
- ✓ **Environmental Liability.**
- ✓ **Munitions and Explosives.**
- ✓ **Contracting for Services.**
- ✓ **Government Card Program Management.**
- ✓ **Information Assurance.**
- ✓ **Personnel Security Investigation Program.**
- ✓ **Management of Real Property (Facilities).**



Army Material Weakness Example

Title: Standard Procurement System (SPS) interface to Computerized Accounts Payment System (CAPS)

Description: Army contracting offices use SPS to write contracts while DFAS use CAPS to process contract payment information. The Army is experiencing numerous problems in getting these systems to work together effectively.



AMC Material Weakness Example

**Title: AMC World Wide Web (WWW)
Use and Vulnerabilities**

**Description: Use of WWW has innate
insecurities, just as crossing a
superhighway has inherent dangers.
These risks cannot be eliminated.
Actions can be taken to lessen the
risks while gaining advantages.**



JMC Material Weakness Example

Title: AMSOS-93-2, Lack of Care and Maintenance of the Ammunition Stockpile

Description: We have severely neglected the care and maintenance of the stockpile in recent years. With the high funding priority being Supply Depot Operations (SDO) receipts/issues and Second Destination Transportation (SDT) and the decrease in overall funding, we have diverted resources from the care and maintenance of the stockpile.



Material Weakness Reporting Guidance

- ✓ **Material Weakness Format.**
- ✓ **Material Weakness Categories.**
- ✓ **Each Material Weakness must include plan of corrective action (with milestones).**
- ✓ **Validation is the last step in corrective action plan.**



Validation

- ✓ **Last milestone in corrective action plan.**
- ✓ **Internal auditor or an independent third party completes validation.**
- ✓ **Validate that corrective actions have taken place and that the actions have corrected the weakness.**
- ✓ **Can close weakness if overcome by events (OBE) .**



Material Weakness Tracking

- ✓ **You must follow up and track material weaknesses.**
- ✓ **The MCA and material weakness functional POC are responsible for the tracking.**